Financial Stability Talking Points

Update on Financial Stability Program:

- Last month, the Administration unveiled a Financial Stability Plan to stabilize our financial system and ensure that it works with our efforts to grow the economy, not against it, by providing the credit consumers and businesses need to grow and thrive.

- It aggressively addresses the four key problems at the core of the crisis:

  1. falling home prices,
  2. frozen credit markets,
  3. need to strengthen the capital of major banks, and
  4. the problem of legacy or "toxic" assets that are clogging up bank balance sheets and preventing them from lending.

- We've made significant progress over the last month in implementing this plan.

  - We put in place a home affordability program to stabilize the housing market and ensure responsible homeowners can afford to stay in their homes.
  - We jumpstarted the credit markets for autos, student loans and businesses, which just this week had almost $9 billion in new securitizations – more than in the last four months.
  - We announced a new capital program that will determine how much capital our major banks need to maintain or increase lending even if the economy gets worse. If they need additional capital, they can raise it in the private market, or use government resources as a bridge to when private capital becomes available.
  - We announced a new small business lending program, to ensure that responsible business owners can grow and create jobs. Small businesses have accounted for 70% of job growth over the last decade, and it's critical to our recovery that we unlock credit for these business owners.

Public Private Investment Program:

- This week, we'll announce the next piece of the Financial Stability Plan – the Public-Private Investment Program which will help create a market for the troubled real estate-related assets, the residential and commercial mortgages made in the years before the recession began, that are now clogging up the financial system.

- The Program will set up funds using both government and private capital to purchase $500 billion in troubled loans and securities. Over time, these funds could purchase up to $1 trillion in troubled assets.

- These funds include three main features:

  - These funds will use government resources in the form of capital from the Treasury and financing from the FDIC and Federal Reserve to mobilize capital from private investors.

  - They will ensure that private sector participants share the risks alongside the taxpayer, and that the taxpayer shares in the profits from these investments. These funds will be open to investors of all types, such as individuals, pension funds, financial institutions, and private equity and hedge funds, so that a broad range of Americans can participate.

  - Private sector investors will establish the value of the loans and securities purchased under the program, which will protect the government from overpaying for these assets. For instance, for loans, the FDIC will offer leverage and Treasury will offer co-investment to investors who bid in an auction for the loans. The auction and promised leverage will determine the price.

- By leveraging private resources to cleanse balance sheets through the sale of problem legacy assets, we will put banks in a better position to raise the private capital they would need to face a more difficult economic environment and be in a position to lend.

- We will tackle both types of legacy assets – securities and the troubled loans that banks hold on their books – with mechanisms that recognize that different types of legacy assets and the different types of private sector investors require somewhat different approaches.

- The Public-Private Investment Program protects the taxpayer in three important ways:

- **The Program is an efficient use of government resources.** Our commitment of $75-100 billion in TARP funds is designed to leverage $500 billion to $1 trillion in purchasing power. Alternative proposals for dealing with troubled assets would leave the taxpayer on the hook for the entire cost.

- **The Program protects taxpayer from risk.** By ensuring that the private sector participants compete for the right to government capital, share risk with the taxpayer, and only realize profits when they help us successfully unfreeze credit markets, we are protecting taxpayer money and ensuring that taxpayers reap the benefits of these investments.

- **The Program allows the market to set the price.** Rather than having the government set prices for these assets and waste taxpayer dollars by paying too much, the Public-Private Investment Program will allow the market to set the price. This gets to the core of the legacy asset problem – restarting “missing markets” that can determine reasonable pricing for real estate loans and securities. These programs should help to eliminate the illiquidity and fire sale discounts embedded in current legacy asset prices.

- By finding a price and beginning to purchase the real estate-related assets currently clogging our financial system, this program will provide a market for these assets where one does not exist, which will:

- Help improve asset values (Imagine what the value of your home would be if there if everyone had to pay with money they already had. If no one would lend any money the price of your house would be much lower.)

- Increase lending capacity by giving banks the confidence they need to lend.

- Allows banks and investors to get clearer picture of the banks condition.

- Also, the ability to sell assets to this fund will make it easier for banks to raise private capital, which will accelerate their ability to replace the government’s investments in those banks. (creating a positive cycle)

- The willingness of the private sector to take risk is the only path out of this recession. We will welcome these investors as partners.